OUR MISSION

- To provide commercially viable banking services that contribute to the economic growth of Vanuatu,

- To lead the country in development of accessible rural banking services whilst capitalising on opportunities within the business market.

OUR VISION

To be:
- Competitive
- Profitable
- Focussed on the needs of the people of Vanuatu
- Capable of continuous improvement to products & customer services
THE BOARD

**Lindsay Barrett**  CA (NZ) TEP
**ACTING CHAIRMAN**
Appointed to Board in 2010
MANAGING PARTNER
BARRETT & PARTNERS
PORT VILA, VANUATU

**Bob Hughes**  MBA FFin
**MANAGING DIRECTOR**
Appointed to Board in 2001
NATIONAL BANK OF VANUATU

**Tony Amos Sewen**  BA
**DIRECTOR**
Appointed to Board in 2013
ACTING DIRECTOR OF FINANCE
MINISTRY OF FINANCE

**Lindley Edwards**  B.Bus Acct., B.Bus Banking and Finance
Grad Dip Corp. Gov’t. - Listed Companies
F.Fin, MAICD
**DIRECTOR**
Appointed to Board in 2013
GROUP MANAGING DIRECTOR
AFG VENTURE GROUP
SYDNEY, AUSTRALIA
THE MANAGEMENT

Andy Cottam  BActg  FFIn
HEAD OF AUDIT, RISK & COMPLIANCE
Joined the National Bank in 2008

Juliann Williams  BA  MBA
HEAD OF HUMAN RESOURCES
Joined the National Bank in 1999

Serge Taga
HEAD OF RELATIONSHIP BANKING
Joined the National Bank in 1995

Jerry Ishmael
HEAD OF RETAIL BANKING
Joined the National Bank in 2004

John Aruhuri  BCom
HEAD OF RURAL BANKING SERVICES
Joined the National Bank in 2009

Stuart Mathison  BE (Hon) Grad.Dip. Applied Computing  M Int’l Dev
HEAD OF OPERATIONS
Joined the National Bank in 2008

Michael Fimeri  M. App Fin
HEAD OF TREASURY & FINANCE
Joined the National Bank in 2013

Steve Buchanan
HEAD OF CREDIT & RECOVERIES
Joined the National Bank in 2012
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National Bank’s Mission “To provide commercially viable banking services that contribute to the economic growth of Vanuatu” and “To lead the country in development of accessible rural banking services whilst capitalising on opportunities within the business market” remains a solid platform for the bank’s business model.

The foundations of the mission are enshrined in the history of the bank wherein the rural communities of Vanuatu are provided with banking services unequalled by other banks operating in Vanuatu.

The bank, through its thirty branches from Mota Lava in the north to Anetityum in the south, continued its outreach in 2013 with branch upgrades, new technology, financial literacy training & development and facilitation of micro-business and development loans, all of which empower rural communities to create wealth and contribute to the national economy.

On the business front, the bank improved upon previous years’ results in many aspects of its business but unfortunately experienced disappointing results in the lending book. Whilst competitive forces continue to play in this market, there has been no tangible evidence of any upturn in economic conditions, witnessed by the fact the banking system is not expanding in comparison to peak years in the late 2000’s.

The real estate market has remained very flat and all banks have experienced an upturn in non-performing loans necessitating increased loss provisioning. This is primarily due to the inability of clients to repay loans and eventual mortgagee sales resulting in reduced realisation values, primarily because of a lack of demand. The National Bank is no different and has found the main reasons behind loan defaults are loss of employment in the smaller lending categories, and poor state of the real estate and investment markets in the development & tourism sectors.

The bank’s profit performance in 2013 was disappointing compared to past years. The Board agreed to take a very conservative approach under current circumstances and significantly increased its loan loss provisioning well beyond past years. In announcing a final profit of Vt8 million, I must stress that this final figure is consequent to not only the increased provisioning mentioned, but also the expenses associated with management and maintenance of the bank’s thirty branch network, as well as the considerable business license fee applied to the bank which unfortunately does not acknowledge the wide-reaching services provided by the National Bank.

The outlook for the year ahead is challenging albeit that a number of international agencies including the IMF are predicting an upturn in the economy in 2014. Should this eventuate, the bank expects its overall financial performance to improve.

Whilst experiencing a difficult year in 2013 the Board recognises and sincerely acknowledges the ongoing support of its valued customers during the year. There is no doubt that the bank will strive to continue its mission and deliver the services expected as efficiently and effectively as possible.

I also acknowledge the contribution of the management team and all bank staff members across the country for their ongoing dedicated contributions throughout the year. I thank them for their excellent contributions during a challenging year and for their enthusiastic approach to making 2014 a better year.

Lindsay Barrett CA (NZ) TEP
Acting Chairman
RAPPORT DU PRÉSIDENT DU CONSEIL D’ADMINISTRATION

La mission de la Banque nationale, qui consiste à “Assurer des services bancaires commercialement viables, qui contribuent à la croissance économique du Vanuatu” et “Mener le pays en ce concernant le développement de services bancaires accessibles en milieu rural, tout en tirant parti des opportunités qui se présentent sur le marché des affaires” continue d’être une plate-forme solide pour le modèle opérationnel de la banque.

Les fondations de la mission sont entérinées dans l’historique de la banque, en ce que, grâce à elle, les communautés rurales du Vanuatu ont accès à des services bancaires qu’aucune autre banque présente dans le pays ne leur offre.

La banque, avec ses trente agences s’étendant de Mota Lava au nord à Aneityum au sud, a continué son rayonnement en 2013 par une modernisation des agences, avec de nouvelles technologies, des programmes de formation et de développement en matière financière et en facilitant les prêts aux micro-entreprises et au développement, toutes des initiatives qui permettent de doter les communautés rurales des moyens d’engendrer une certaine prospérité et de contribuer à l’économie nationale.

Au plan des affaires, la banque a réussi à améliorer ses résultats par rapport aux exercices antérieurs dans de nombreux domaines de ses activités, mais, malheureusement, elle a enregistré des résultats décevants au niveau de son portefeuille de prêts. Bien que le jeu de la concurrence se poursuive dans ce type de marché, il n’y a pas de manifestations concrètes d’un redressement de la conjoncture, comme le prouve le fait que le système bancaire ne connaît pas l’expansion des années fastes de la fin de la dernière décennie.

Le marché de l’immobilier reste terne et toutes les banques ont souffert d’un nombre croissant de prêts défaillants, ce qui les a obligées à provisionner davantage les pertes. Cette situation vient essentiellement de ce que les clients ne sont pas en mesure de rembourser leurs emprunts et de ce que les éventuelles ventes hypothécaires aboutissent à une baisse des valeurs de réalisation, surtout par manque de demande. La Banque nationale n’a pas été épargnée et s’est rendue compte que les principales raisons des défauts de paiement sont la perte d’emplois dans la catégorie des plus petits emprunts et la morosité sur les marchés de l’investissement et de l’immobilier dans les secteurs du développement et du tourisme.

Le résultat net d’exploitation de la banque en 2013 a été décevant par rapport aux années passées. Vu les circonstances actuelles, le conseil d’administration a décidé d’adopter une approche très conservatrice et a considérablement augmenté sa dotation aux provisions pour pertes sur emprunts, bien au dessus de celle des années antérieures. En annonçant un bénéfice final de 8 millions de vatu, je dois souligner que ce chiffre résulte non seulement de l’augmentation de la dotation telle que mentionnée, mais aussi des dépenses associées à l’administration et l’entretien du réseau des trente agences de la banque, ainsi que des droits de patente élevés imposés à la banque, lesquels ne prennent malheureusement pas en considération la portée géographique des services qu’offre la Banque nationale.

Les perspectives pour la nouvelle année présentent une gageure, même si nombre d’instances internationales, dont le FMI, prédisent une reprise de l’économie en 2014. Si celle-ci se réalise, la banque pourra espérer de meilleurs résultats financiers à tous égards.

Bien que 2013 ait été une année difficile, le conseil d’administration reconnait le soutien continu de ses fidèles clients tout au long de l’année et les en remercie sincèrement. Il n’y a pas de doute que la banque va s’efforcer de poursuivre sa mission et d’assurer les services qu’on attend d’elle aussi efficacement et concrètement que possible.

Je tiens aussi à reconnaître la contribution de l’équipe de direction et de tous les membres du personnel de la banque dans tout l’archipel et leur appui dévoué tout au long de l’année. Je tiens à les remercier pour d’excellents efforts face aux défis de l’année et à saluer leur attitude enthousiaste pour faire de 2014 une meilleure année.

Le président par intérim du Conseil d’administration
Lindsay Barrett CA (NZ) TEP
NO OTHER BANK GOES WHERE WE GO

Rural Banking

PROVIDING A WIDE RANGE OF FINANCIAL AND SUPPORT SERVICES THROUGHOUT THE COUNTRY FROM FAR DOWN SOUTH AS ANEITYUM AND FAR NORTH AS BANKS & TORRES.
## FIVE YEAR SUMMARY 2009-2013

(Expressed in ‘000 Vatu)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
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<tr>
<td><strong>Profit &amp; Loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Interest income</td>
<td>797,821</td>
<td>882,237</td>
<td>1,003,973</td>
<td>1,011,636</td>
<td>994,462</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(309,067)</td>
<td>(344,361)</td>
<td>(379,050)</td>
<td>(364,379)</td>
<td>(313,386)</td>
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<tr>
<td>Net Interest income</td>
<td>488,754</td>
<td>537,876</td>
<td>624,923</td>
<td>647,257</td>
<td>681,076</td>
</tr>
<tr>
<td>Other operating income</td>
<td>243,835</td>
<td>269,205</td>
<td>299,582</td>
<td>332,528</td>
<td>355,310</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>(23,313)</td>
<td>(36,719)</td>
<td>(44,255)</td>
<td>(69,060)</td>
<td>(159,077)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(643,976)</td>
<td>(626,578)</td>
<td>(756,959)</td>
<td>(810,166)</td>
<td>(869,289)</td>
</tr>
<tr>
<td>Operating profit / (loss) before government grant</td>
<td>65,300</td>
<td>143,784</td>
<td>123,291</td>
<td>100,559</td>
<td>8,020</td>
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<tr>
<td>Government grant</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td><strong>Profit / (loss) for the year</strong></td>
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**Balance sheet**

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<tr>
<td>Net loans and advances</td>
<td>6,295,431</td>
<td>7,339,886</td>
<td>8,490,384</td>
<td>9,581,790</td>
<td>10,030,980</td>
</tr>
<tr>
<td>Total assets</td>
<td>9,714,901</td>
<td>10,951,997</td>
<td>12,226,685</td>
<td>12,946,765</td>
<td>13,267,087</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>8,617,839</td>
<td>9,294,524</td>
<td>10,648,834</td>
<td>10,596,432</td>
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<tr>
<td>Shareholders' funds(Equity)</td>
<td>709,762</td>
<td>853,546</td>
<td>976,837</td>
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**Performance ratios**

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<tr>
<td>Return on shareholders' Funds (Equity) %</td>
<td>9.20</td>
<td>16.85</td>
<td>12.62</td>
<td>6.67</td>
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<tr>
<td>Return on assets %</td>
<td>0.67</td>
<td>1.31</td>
<td>1.01</td>
<td>0.78</td>
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<tr>
<td>Income growth %</td>
<td>3.75</td>
<td>10.54</td>
<td>13.21</td>
<td>3.12</td>
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**Prudential ratios**

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<td>Capital adequacy %</td>
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<td>18</td>
<td>11.75</td>
<td>15.31</td>
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<tr>
<td>Liquid asset ratio %</td>
<td>12.90</td>
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MANAGING DIRECTOR’S REVIEW

The Economy
There has been little change in economic conditions over the past year in Vanuatu as our closest trading partners continue to influence our economic welfare. The Australian economy has been growing but still below expectations at 2.8% in 2013 as it transitions from mining to non-mining led growth against the backdrop of an ongoing reasonably high dollar. GDP growth for 2014 has been forecast down from 3.3% to 2.8% in line with Treasury forecasts. The slowdown of Chinese growth from an average of 10% during the previous decade to an average of 7.5% over the coming decade will dampen Australia’s export revenue and growth prospects further. In contrast, New Zealand’s economy appears to be performing relatively well with a growth rate in 2013 in the top ten advanced economies at 2.5%.

Further afield, the Euro zone fringe countries expect gradual recovery in 2013 and 2014 after emerging from recession in the second quarter of 2013. The Euro Zone continues to face problems of high unemployment, reaching 12.2% in August and September 2013. In October annual inflation fell to its lowest level in almost four years, sparking concerns that the Euro zone could face a period of deflation whilst the US economy continues its recovery but at a modest pace.

These factors will generally contain foreign investment into Vanuatu at continuing subdued levels in the short to medium term albeit that Vanuatu real estate must now be considered a bargain paradise for property investment.

More locally the primary drivers of the domestic economy remain the Services sector (tourism), the Agricultural sector and to a lesser extent Industry. The tourism sector results for 2013 were encouraging with Arrivals by Sea increasing by 11% and Air Arrivals up by 2%. New Zealand has passed New Caledonia as the second largest market with Australia providing the bulk of visitors at a steady 60%.

Commodity production and prices during 2013 were generally negative which is reflected in reduced world prices for many of Vanuatu’s export products. In summary Copra showed a marked decrease while Cocoa reversed the trend with a significant increase in production particularly in the second half. Beef production was down on 2012 due to reduced productivity at both Santo and Port Vila abattoirs and Coconut oil products were also slow for the year, while Kava provided an improved performance on 2012.

Within the industrial sector, whilst foreign investment has been slow, there are positive signs emerging that a number of long awaited donor funded development projects have commenced or will commence in 2014 which are expected to provide an increase in employment and create positive economic benefits generally.

Business Overview
Fuelled by poor economic conditions, general banking conditions in the urban areas remained very subdued in 2013 across most industry sectors following on from a weak 2012.

Although economic conditions appear improved in neighbouring markets, new business and investment opportunities anticipated for the expansion of the business and personal loan portfolios experienced a slowdown. Competition within the banking sector has been very challenging putting pressure on retaining existing business, as well as generating new customer relationships. Banking system liquidity was unpredictable in 2013 with some banks liquid and others including NBV experiencing bursts of high demand thus driving up interest costs. The overall Vatu deposit base improved marginally across the system, but the bank expects it’s cost of funds to remain relatively high in 2014. On the other hand the total Vatu loan base reduced slightly for the first time in at least the past decade across the Vatu denominated banking system.

Microfinance services are the clear financial pathway forward for under-banked communities. They have been well acknowledged by many people who have accessed the products and services and are growing with them.

In the rural communities across the country demand for NBV’s banking services continue to increase as a direct result of Financial Literacy Education workshops and seminars delivered through the branches and agencies.

The foreign currency market remained competitive and demand driven. As a net importing country foreign currency is generally in high demand and short supply. On the foreign currency deposit front, limited growth capacity exists as this market has been diminishing since 2008 across the sector.
Without doubt 2014 will be another very challenging year for the bank and finance industry generally as well as other businesses that rely on investment such as tourism, construction and development.

BUSINESS UNIT OVERVIEW

Relationship Banking
The mainstream lending portfolio of the bank includes commercial and larger consumer loan products and responsibility rests with Relationship Banking. The team is segmented to meet specific needs and requirements of our commercial, small business and consumer lending clients, creating a focused approach to budget targets and performance management.

Demand in lending for property development and investments in the local market have been slower than expected with continued strong competition amongst the banks. Despite the depressed market conditions during the year the bank’s total loan portfolio registered growth of 6%.

Retail and Rural Banking
The Retail and Rural Banking units are responsible for the branch network in both rural and the main urban centres of Port Vila and Luganville. During the year a new agency opened on Mota Lava in Torba province increasing the bank’s outreach to thirty branches servicing communities across the country. Upgrades and relocations during the year saw Lolowai branch relocated to Saratamata and Betarara branch to a new building next to the old premises. Branch operational activities continued satisfactorily throughout the year.

The Financial Literacy Education workshops and seminars continued for all branch and agency locations and retail deposit mobilization continued to be the highlight of positive outcomes resulting directly from increased number of new savings accounts opened. Since commencement of the program in 2012, a total of 17,000 citizens attended 392 dedicated workshops resulting in 19,000 new accounts.

The bank’s Mekem Gro special deposit account has mobilized Vt600 million into the Vanuatu banking system. Additional outcomes achieved from this program are reflected in the steady increase in micro lending to both new and existing customers, as well as a steady growth in job creation. During this period 1,400 micro loans valued at Vt340m were disbursed, 895 new micro enterprises established and 1,650 new jobs created. These outcomes are expected to grow further and more positively into the coming year.

At this point it is important for the bank to express its gratitude to NZAID through the High Commission in Port Vila and the Wellington, New Zealand office, for its continuing financial assistance to support this important initiative.

During 2013 the Micro Finance lending team introduced a new loan product to cater for the acquisition of rural leased land in strategic locations where economic growth potential is evident. The initiative aims to provide Ni-Vanuatu citizens with a sense of security over their investments with greater opportunities for future growth in a rural setting. The product was piloted and rolled out in Lugarville - Santo, Lenakel - Tanna and Saratamata - Ambae and is expected to grow further in the years ahead.

The bank continued its strategic alliances with Vanuatu Post Ltd, Vanuatu Chamber of Commerce & Industry and TVET throughout the year with strong cooperation and solid results achieved.

Risk and Audit
A joint project with shareholder IFC was initiated through an IFC Risk Assessment in 2012 and the program is now well underway. Training, resource capacity building and other requirements have been assessed during stage one and the next phase involves on-site consultant work in early 2014 to internalise the bank’s Internal Audit function. As a consequence of this the bank will produce a new set of Board policies covering the subject.

IFC is also assisting the bank further develop its corporate governance requirements and a special program is foreshadowed for director and executive education during 2014.

Well advanced in development is the new role of Head of Risk and significant work has progressed in re-developing the banks Risk Profile and monitoring systems. This work will continue during 2014 with the assistance of the IFC program.

Treasury and Finance
The Bank’s Treasury and Finance team is responsible for looking after all international transactions involving the Bank, measurement and monitoring of the Banks
liquidity and market risks as well as prudential reporting and management accounting.

The team achieved solid results in 2013, both financially and operationally, despite intense competition and a significant restructure which included the formation of a new Treasury department and the alignment of the Treasury and Finance teams.

Treasury is now better placed to support the banks financial objectives for 2014, continuing to offer the very competitive international services previously provided as well as developing a number of new product initiatives over the coming year. All of this will be achieved with even greater oversight and risk monitoring than previously seen within the Bank.

The Finance arm of the Bank will continue to report and monitor the Banks financial strength and will benefit from upcoming improvements in both the Core Banking and Accounting financial systems.

**Credit Administration**

The Credit and Recoveries Department became a discrete business unit during 2013 following a restructure and includes the Credit, Recoveries and the Lending Support teams.

The Credit team’s function is to review loan applications from Microfinance, Retail and Relationship Banking lending staff and ensure that loan requests are within the bank’s lending policy and maximise the best possible return to the bank whilst minimising risk.

The Recoveries team function is to ensure the bank’s poor and non-performing loans are followed up in a timely manner. It manages legal processes to recover non-performing debts and sees to it recovery action is exercised appropriately to ensure the bank’s losses are minimised.

Business unit staff are also involved in on-going training with lenders.

**Human Resources**

The bank’s HRD team provides human resource management functional activities consistent with the bank’s business requirements to enable it to meet its business and service goals. It works closely with business units as a strategic partner, providing support to plan and manage the bank’s human resource and training needs. Proactive support is one of our people practice strategies through staff recruitment, coaching, counselling and performance management, training and staff entitlement management.

A key HR initiative implemented in 2013 was a training plan drawn up and successfully implemented with the prime focus on the bank’s rural and remote branch staff training, coaching and mentoring. The three main objectives of the plan were managing staff performance issues to improve the bank’s workforce retention ability; enhance staff understanding of the bank as their employer and assist maintain staff turnover below the 7% target thus reducing recruitment costs. The bank achieved a turnover rate of 6.8% for 2013 and a total of 2,500 man hours of training was delivered on-site over a 7 months period by the bank’s HRD team.

An important structural change was implemented in July 2013 as a further step to ensure the bank meets its stakeholder prudential requirements in a constructive and conclusive manner. The change included the establishment of three new business units namely Audit, Risk and Compliance, Credit & Recoveries and the Treasury and Finance business units.

At the end of December 2013 total number of employees at NBV was 205 of which 200 were Ni-Vanuatu and 5 were expatriates.

**Operations – Information and Communications Technology and Support Services**

The ICT and Support Services team provides a wide range of functional activities that support the operations of the Bank. Its primary objectives are to ensure alignment of ICT activities with the Corporate Business Plan, to provide value from ICT activities and investments, to manage ICT risks and to manage ICT resources. The team also provides project and logistics management to various parts of the Bank’s development platform including the Head Office building.

In 2013, all ICT Operational Benchmarks were achieved and disruption to bank services of any kind were rare events. This is a very positive outcome of the on-going effort of ICT staff to improve sub-system resilience and this will continue in 2014.

In light of a difficult year experienced in 2013, Operations Department is undertaking a thorough and non-exclusive review of all operational expenditures, with a view to increasing efficiencies and reducing costs.
A policy framework for Corporate Governance of ICT has been prepared in accordance with International Standards and adapted for the specific circumstances of the Bank. Diligent application of this policy will ensure that ICT continues to serve the Bank’s corporate strategy and goals. In particular, ICT Risk Management will be a primary focus in 2014.

**Conclusion**

In conclusion I would like to thank our valued customers for their support during the year. I would also like to thank the Board members, the Management team and a great team of dedicated staff who have all supported the bank’s core strategies in these rather difficult times to keep the bank moving forward and developing our banking services in the urban and rural communities of Vanuatu.

Bob Hughes
MBA, FFin
Managing Director
National Bank
Vanuatu’s Own Bank

No other Bank goes where we go. The largest branch and agency network in Vanuatu.
L’économie
Il n’y a guère eu de changement dans la conjoncture au Vanuatu au cours de la dernière année, nos partenaires les plus proches continuant d’influencer notre situation économique. L’économie australienne a connu une croissance inférieure aux attentes à 2,8% en 2013, étant en phase de transition d’une croissance fondée sur l’exploitation minière à une croissance entraînée par d’autres activités, avec, en arrière-plan, un dollar encore assez élevé. La croissance prévisionnelle du PIB pour 2014 a été révisée à la baisse, de 3,3% à 2,8%, conformément aux prévisions du Trésor. Le ralentissement de la croissance en Chine, passant de 10% au cours de la dernière décennie à 7,5% en moyenne pour la décennie à venir, va encore davantage réduire les recettes provenant des exportations et les perspectives de croissance de l’Australie. Par contre, l’économie néo-zélandaise semble bien se maintenir, avec un taux de croissance en 2013 au niveau des dix premières économies avancées à 2,5%.

Plus loin dans le monde, les pays en marge de la zone euro escomptent une reprise progressive en 2013 et 2014 après avoir émergé de la récession au cours du deuxième trimestre de 2013. La zone euro continue d’être confrontée à des taux de chômage élevés qui ont atteint 12,2% en août et septembre 2013. Au mois d’octobre, le taux d’inflation annuel est tombé à son niveau le plus bas en près de quatre ans, suscitant des inquiétudes de voir la zone euro traverser une période de déflation, tandis que l’économie américaine continue de se redresser, bien qu’à une cadence modérée.

Ces facteurs signifient que les investissements étrangers au Vanuatu vont continuer à un rythme ralenti à court et moyen terme, même si le marché de l’immobilier peut être décrit comme un paradis de bonnes affaires pour l’investissement dans des biens immobiliers.

Sur place, les principaux moteurs de l’économie du pays continuent d’être le secteur des services (tourisme), le secteur agricole et, dans une moindre mesure, l’industrie. Les résultats pour 2013 dans le secteur du tourisme ont été encourageants, avec le nombre de visiteurs par bateau en hausse de 11% et par avion de 2%. La Nouvelle-Zélande a dépassé la Nouvelle-Caledonie pour devenir le deuxième plus gros marché après l’Australie, qui compte pour 60% des visiteurs.

Les chiffres de production des produits de base et les prix en 2013 ont été généralement négatifs, ce qui reflète des cours mondiaux inférieurs pour bon nombre de produits exportés du Vanuatu. Pour résumer, le coprah a affiché une nette chute, tandis que le cacao a inversé la tendance avec une augmentation sensible de la production, surtout au cours de la deuxième moitié de l’année. La production de viande a baissé par rapport à 2012 en raison d’une moindre productivité aux abattoirs de Santo et de Port-Vila tout à la fois. Les produits d’huile de coco ont eux aussi tourné au ralenti durant l’année, tandis que le kava a progressé par rapport à 2012.

Pour ce qui concerne le secteur industriel, bien que l’investissement étranger ait été modique, des signes positifs semblent apparaître du fait que certains projets de développement financés par des bailleurs de fonds, attendus depuis si longtemps, ont démarré ou vont démarrer en 2014, ce qui devrait stimuler le marché de l’emploi et entraîner de manière générale des retombées bénéfiques pour l’économie.

Tour d’horizon des affaires
Les conditions bancaires dans les zones urbaines, touchées par la mauvaise conjoncture, sont restées généralement très déprimées pour la plupart des secteurs de l’industrie en 2013, venant à la suite d’une année 2012 médiocre. Bien que la situation économique semble s’être améliorée dans les marchés voisins, les nouvelles possibilités d’investissement et d’affaires escomptées pour l’expansion des portefeuilles de prêts professionnels et personnels ont connu un ralentissement. La concurrence au sein du secteur bancaire a été rude, mettant la pression pour conserver la clientèle existante, de même que pour créer des liens avec de nouveaux clients. Le niveau de liquidités dans le système bancaire a été irrégulier en 2013, certaines banques en disposant, d’autres, y compris la BNV, rencontrant des périodes de forte demande, ce qui a fait monter les intérêts. La base globale des dépôts en vatu s’est améliorée marginalement dans l’ensemble du système, mais la banque s’attend à ce que le coût de l’argent reste relativement élevé en 2014. En revanche, la base totale des emprunts en vatu s’est contractée légèrement pour la première fois en quelques dix ans dans tout le système bancaire travaillant en vatu.
Manifestement, des services de micro-financement sont la voie vers l’avant pour les communautés manquant de moyens bancaires. Ces services ont été accueillis favorablement par de nombreuses personnes qui ont bénéficié des produits et services et se développent grâce à eux.

Dans les communautés rurales de part et d’autre du pays, la demande pour des services bancaires de la BNV continue de s’amplifier en conséquence directe des ateliers et colloques sur l’éducation en matière de finances qui ont été organisés par le biais des agences et des succursales.

Le marché des devises étrangères est resté compétitif, entraîné par la demande. Etant un pays avant tout importateur, il y a généralement une forte demande et une faible offre de devises. Pour ce qui est des dépôts en devises étrangères, il n’y a guère de possibilités d’expansion car c’est un marché qui recule depuis 2008, et ce dans tout le secteur.

Il va sans dire que 2014 va encore être une année pleine de défis pour la banque, le secteur financier en général et aussi pour d’autres secteurs qui dépendent des investissements, tels que le tourisme, le bâtiment et le développement.

TOUR D’HORIZON DE LA SECTION DES AFFAIRES

La banque relationnelle
La composante principale du portefeuille de crédit de la banque comprend des emprunts commerciaux et des gros crédits à la consommation et la responsabilité en incombe à la section de la banque relationnelle. Elle est divisée en segments pour répondre aux besoins et conditions particuliers de nos clients emprunteurs, les commerçants, les petites entreprises et les particuliers, créant une approche focalisée sur les cibles budgétaires et la gestion des résultats.

La demande de prêts pour le développement et l’investissement immobiliers sur le marché local n’a pas été aussi forte qu’escomptée, et la concurrence entre banques continue d’être dure. Or, malgré les conditions de marché, déprimées, au cours de l’année, au total, le portefeuille de crédit de la banque a enregistré une croissance de 6%.

La banque de détail et rurale
Les sections de la banque de détail et rurale sont responsables du réseau d’agences, tant en milieu rural que dans les grands centres urbains de Port-Vila et Luganville. Pendant l’année, une nouvelle branche s’est ouverte à Mota Lava dans la province de Torba, amenant ainsi à trente le nombre d’agences desservant les communautés dans tout le pays. Des initiatives de mise à niveau durant l’année ont fait que l’agence de Lolowai a été transférée à Saratamata et celle de Betarara a déménagé dans un nouveau bâtiment à côté des anciens locaux. Les activités d’exploitation des agences se sont poursuivies de façon satisfaisante tout au long de l’année.

Les ateliers et colloques de formation en finance ont continué de se dérouler dans tous les endroits dotés d’une agence ou d’une succursale et la mobilisation des dépôts au détail continue de marquer les aboutissements positifs, directement liée au nombre croissant de nouveaux comptes d’épargne qui ont été ouverts. Depuis le lancement du programme en 2012, au total 17.000 citoyens ont participé à 392 ateliers de formation, avec pour résultat 19.000 nouveaux comptes.

Le compte de dépôt spécial de la banque, Mekem Gro, a amené 600 millions de vatu dans le système bancaire au Vanuatu. D’autres aboutissements réalisés grâce à ce programme se manifestent dans la hausse régulière du nombre de micro-crédits accordés à des clients nouveaux et existants, ainsi que de la création d’emplois. Durant l’année, 1.400 micro-crédits d’une valeur de 340 millions de vatu ont été débloqués, 895 nouvelles mini-entreprises ont vu le jour et 1.650 emplois ont été créés. Ces résultats devraient, selon toute attente, continuer à s’amplifier de plus en plus dans l’année à venir.

A cet égard, il convient de remercier l’agence d’aide NZAID, par les bons offices du haussariat à Port-Vila et du bureau à Wellington en Nouvelle-Zélande, pour avoir continué d’apporter une aide financière à l’appui de cette grande initiative.

Dans le courant de 2013, l’équipe de crédit pour le micro-financement a lancé un nouveau produit de prêt pour permettre l’acquisition de terres à bail stratégiquement situées en zone rurale, qui offrent clairement un potentiel de croissance économique. Cette initiative vise à apporter aux citoyens ni-Vanuatu un sentiment de sécurité concernant leurs investissements, avec davantage de possibilités de croissance future dans un milieu rural. Le produit a été piloté et lancé à Luganville – Santo ; Lenakel - Tanna ; et Saratamata - Ambae et on s’attend à ce qu’il s’étende de plus en plus dans les prochaines années.
La banque a maintenu ses alliances stratégiques avec la société Vanuatu Post Ltd., la Chambre de Commerce et d’Industrie du Vanuatu et l’EFTP, avec une solide coopération tout au long de l’année et des résultats probants.

Risques et Audit
Un projet a été lancé conjointement avec l’actionnaire IFC (International Finance Corporation) dans le cadre d’une évaluation des risques par l’IFC en 2012 et le programme est désormais en bonne voie. Les besoins en termes de formation, de renforcement des capacités et d’autres ont été évalués au cours de la première étape, et l’étape suivante va faire intervenir des experts-conseils sur place au début de 2014 pour internaliser la fonction d’audit interne de la banque. A la suite de cela, la banque va établir à ce sujet un nouvel ensemble de directives du conseil d’administration.

L’IFC est aussi en train d’aider la banque à peaufiner les conditions requises pour la gouvernance de la société et un programme spécial est prévu pour l’instruction des administrateurs et directeurs au cours de 2014.

La nouvelle charge de Directeur des risques commence à vraiment prendre forme et beaucoup d’efforts ont été déployés et ont avancé au plan de la révision et du remaniement des systèmes de détermination et de suivi des risques pour la banque. Ces travaux vont se poursuivre tout au long de 2014 avec le concours du programme de l’IFC.

Trésor et Finances
L’équipe du Trésor et des Finances de la banque est chargée de s’occuper de toutes les opérations internationales menées par la banque, de mesurer et contrôler la situation de liquidité de la banque et des risques des marchés, ainsi que de préparer des rapports de prudence et de tenir la comptabilité administrative.

L’équipe a réalisé des résultats solides en 2013, tant au plan financier qu’opérationnel, et ce en dépit de la concurrence intense et d’une restructuration majeure qui a consisté en la création d’une nouvelle division, celle du Trésor, avec une mise en harmonisation des équipes du Trésor et des Finances.

Le Trésor est désormais mieux placé pour appuyer les objectifs financiers de la banque pour 2014, à savoir continuer de proposer des services internationaux très compétitifs comme auparavant, mais aussi d’élaborer de nouveaux produits pour lancement durant l’année à venir. Tout cela se réalisera avec une supervision et une surveillance des risques plus rigoureuses que la banque ait jamais connues.

La branche des Finances de la banque continuera de rendre compte et de surveiller la solidité financière de la banque et pourra profiter des améliorations qui seront apportées prochainement aux systèmes informatiques de base comptables et bancaires.

Administration des crédits
Le Service du crédit et du recouvrement est devenu une section commerciale distincte durant 2013 à la suite d’un remaniement et englobe les équipes de crédit, de recouvrement et d’encadrement des prêts.

L’équipe de crédit a pour fonction d’examiner les demandes de prêt transmises par le personnel du micro-crédit, du détail et de la banque relationnelle et de vérifier que ces demandes cadrent avec la politique de crédit de la banque et garantissent le meilleur rendement possible pour la banque avec un minimum de risque.

L’équipe de recouvrement a pour fonction de veiller au suivi opportun des emprunts douteux et défaillants de la banque. Elle gère les procédures légales de recouvrement des dettes impayées et veille à ce que les actions en recouvrement soient menées en temps voulu pour minimiser les pertes pour la banque.

Les effectifs de la section commerciale participent en outre à une formation continue avec les prêteurs.

Ressources humaines
L’équipe de DRH de la banque se charge de la gestion des membres du personnel et de leurs activités en conformité avec les impératifs commerciaux de la banque pour lui permettre de réaliser ses objectifs d’entreprise et de service. Elle travaille en étroite collaboration avec les sections commerciales en tant que partenaires stratégiques, en apportant son appui pour la planification et la gestion des ressources humaines de la banque et leurs besoins en formation. Un soutien proactif est une de nos stratégies relationnelles concrètes par le biais du recrutement d’effectifs, d’entraînement, de conseil et de gestion du rendement, de la formation et de la gestion des avantages sociaux.

Une initiative clé pour les RH introduite en 2013 a été un programme de formation, bien établi et mis en œuvre, focalisé avant tout sur la formation, l’entraînement et l’encadrement du personnel dans les agences rurales.
et isolées de la banque. Le plan avait pour trois objectifs principaux de gérer les problèmes de rendement du personnel en vue d’améliorer la capacité de la banque de garder ses effectifs ; de rehausser la perception du personnel vis-à-vis de la banque en tant qu’employeur ; et d’aider à éviter un roulement du personnel au delà des 7% ciblés et ce faisant, de réduire les coûts de recrutement. La banque a réalisé un taux de roulement du personnel de 6,8% en 2013 et 2.500 heures/homme au total ont été consacrées à la formation sur place sur une période de 7 mois par l’équipe de DRH de la banque.

Un changement structurel important a eu lieu en juillet 2013, une nouvelle étape pour s’assurer que la banque satisfait aux impératifs de prudence de ses parties prenantes de manière constructive et probante. Ce changement a vu la création de trois nouvelles sections commerciales, à savoir la section d’Audit, Risque et Conformité, celle du Crédit et du Recouvrement et celle du Trésor et des Finances.

A la fin du mois de décembre 2013, le nombre total d’employés à la BNV s’élevait à 205, dont 200 Ni-Vanuatu et 5 étrangers.

**Exploitation – Technologie de l’Information et de la Communication et Services d’encadrement**

L’équipe de TIC et des services d’encadrement assume un vaste éventail de fonctions à l’appui des opérations de la banque. Cette section a pour objectifs premiers de veiller à la conformité des activités de TIC avec le plan d’entreprise de la société, de valoriser les activités et les investissements de TIC, de gérer les risques de TIC et les ressources de TIC. L’équipe fournit en outre des services de gestion de projet et de logistique pour divers aspects de la plate-forme de développement de la banque, dont le bâtiment qui est son siège administratif.

En 2013, tous les jalons opérationnels de TIC ont été atteints et rares furent les perturbations occasionnées aux services de la banque, quels qu’ils soient. Cela représente un aboutissement très positif des efforts continus du personnel de TIC pour améliorer la résistance des sous-systèmes et ils se poursuivront en 2014.

Vu l’année difficile qu’a été 2013, le Service Exploitation est en train d’entreprendre une étude approfondie tous azimuts de toutes les dépenses d’exploitation, dans le but d’améliorer l’efficacité opérationnelle et de réduire les coûts.

Un cadre directeur pour la gouvernance sociale de la TIC a été élaboré conformément aux normes internationales et adapté aux circonstances particulières de la banque. L’application rigoureuse de ce cadre directeur permettra de s’assurer que la TIC continue d’être au service des stratégies et buts d’entreprise de la banque. En 2014, c’est sur la gestion des risques de TIC que l’on se focalisera tout particulièrement.

**Conclusion**

Pour conclure, je tiens à remercier nos fidèles clients pour leur soutien tout au long de l’année. Je tiens aussi à remercier les membres du conseil d’administration, l’équipe de direction et une formidable équipe d’effectifs dévoués qui ont tous soutenu les stratégies fondamentales de la banque, par ces temps assez difficiles, et l’ont aidée à aller de l’avant et développer les services bancaires pour les communautés urbaines et rurales du Vanuatu.

Le Directeur Général
Bob Hughes MBA FFin
BANK PRODUCTS & SERVICES

Savings Accounts
Current Accounts
Mekem Gro Accounts
Selvem Vatu Accounts
I so Accounts
Salaries – Inward & Outward payments
Audit Certificates
Reconciliations
Domestic Term Deposits
Foreign Currency Term Deposits
Foreign Currency Call Accounts
Letters of Credit – Import / Export
International Drafts
SWIFT transfers
Foreign Exchange
Bills for Collection
Land Loans
Home Loans
Personal Loans
Term Loans
Vehicle Loans
Micro Business Loans
Micro Rural Loans
Micro Land Loans
Bank Guarantees
Immigration Bonds
Premium Funding Loans

Competes d’épargne
Competes courants
Competes ‘Mekem Gro’
Competes ‘Selvem Vatu’
Competes ‘I so’
Salaires – encaissement et décaissement
Certificats de revision
Réconciliations
Dépôts à terme – Vatu
Dépôts à terme en devises étrangères
Comptes à vue en devises étrangères
Lettres de Crédit – Import / Export
Cheques internationaux
Transferts SWIFT
Change
Effets à l’encaissement
Prêts fonciers
Prêts au logement
Prêts personnels
Prêts à terme
Bail
Micro-Prêts commerciaux
Micro-Prêts ruraux
Micro-Prêts fonciers
Garanties bancaires
Cautions d’immigration
Premium Funding Loans
CORRESPONDENT BANKS

**Australia**
Commonwealth Bank of Australia, Sydney
National Australia Bank Ltd, Melbourne

**Fiji**
Westpac Banking Corporation, Suva
Bank South Pacific, Suva

**Hongkong**
Bank of China, Hong Kong

**Japan**
Bank of Tokyo Mitsubishi, Tokyo

**New Caledonia**
BNP Paribas, Noumea

**New Zealand**
ASB Bank Limited, Auckland
Westpac Banking Corporation, Wellington
Bank of New Zealand, Wellington

**Papua New Guinea**
Bank South Pacific, Port Moresby

**Singapore**
Overseas Chinese Banking Corporation, Singapore

**Solomon Islands**
Bank South Pacific, Honiara

**United Kingdom**
Royal Bank of Scotland
Commerze Bank

**Germany**
Commerze Bank AG
Frankfurt

**Australie**
Commonwealth Bank of Australia, Sydney
National Australia Bank Ltd, Melbourne

**Fidji**
Westpac Banking Corporation, Suva
Bank South Pacific, Suva

**Hongkong**
Bank of China, Hong Kong

**Japan**
Bank of Tokyo Mitsubishi, Tokyo

**Nouvelle-Calédonie**
BNP Paribas, Noumea

**Nouvelle-Zélande**
ASB Bank Limited, Auckland
Westpac Banking Corporation, Wellington
Bank of New Zealand, Wellington

**Papouasie Nouvelle-Guinéé**
Bank South Pacific, Port Moresby

**Singapour**
Overseas Chinese Banking Corporation, Singapour

**Iles Salomon**
Bank South Pacific, Honiara

**Royaume-Uni**
Royal Bank of Scotland
Commerze Bank

**Germany**
Commerze Bank AG
Frankfurt
FINANCIAL STATEMENTS

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National Bank of Vanuatu Limited

Report of the directors
For the year ended 31 December 2013

The directors present their report together with the audited financial statements for the year ended 31 December 2013 and the auditors’ report thereon.

Directors:

The directors of the Bank at the date of this report, who served throughout the year except where otherwise indicated, are:

<table>
<thead>
<tr>
<th>Director</th>
<th>Appointed</th>
<th>Resigned</th>
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<tr>
<td>Bob Hughes (Managing Director)</td>
<td>19/07/2012</td>
<td></td>
</tr>
<tr>
<td>Lindsay Barrett (Director and Acting Chairman)</td>
<td>01/08/2012</td>
<td></td>
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<tr>
<td>Lindley Edwards (Director)</td>
<td>06/03/2013</td>
<td></td>
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<tr>
<td>Tony Sewen (Director)</td>
<td>06/03/2013</td>
<td>17/01/2014</td>
</tr>
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Santos Vatoko and Dorothy Ericson will be appointed directors once they receive approval from the Reserve Bank of Vanuatu.

Principal activities:

The principal business activity during the course of the year, and continuing, was the provision of general banking services in Vanuatu.

There were no significant changes in the nature of the activities of the Bank during the year.

State of affairs:

In the opinion of the directors, there were no significant changes in the state of affairs of the Bank that occurred during the financial year not otherwise disclosed in this report or the financial statements. Further, it is the opinion of the directors that there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable and that the going concern presumption is therefore appropriate.

Result:

The operating profit for the year was Vt 8,020,000 (2012: Vt100,559,000).

Reserves:

The directors propose that no transfer be made to reserves.

Dividends:

A dividend has not yet been proposed for the 2013 year (2012 : Nil).
National Bank of Vanuatu Limited

Report of the directors (continued)
For the year ended 31 December 2013

Directors’ benefits:

During the financial year, the directors of the Bank did not receive or become entitled to receive any benefits other than:

(a) a benefit included in the aggregate amount of directors’ benefit as shown in the financial statements;
(b) the fixed salary of a full time employee of the National Bank of Vanuatu, by reason of a contract made by the National Bank of Vanuatu with the director.

Directors’ interests in contracts and related party transactions:

Directors serving during the year had no interests in contracts and related party transactions concerning the Bank.

Directors’ declaration:

It is the responsibility of the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its statement of comprehensive income, statement of cashflows and statement of changes in equity for that year. In the directors’ opinion, the financial statements for the year ended 31 December 2013 have been drawn up so as to give a true and fair view.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2013. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records and for safeguarding the assets of the Bank by taking reasonable steps to prevent and detect fraud.

For and on behalf of the Board and in accordance with a resolution of the directors.

Dated at Port Vila, the 27th March 2014

[Signatures]

Director

Director
Independent Auditors’ Report to the members of National Bank of Vanuatu Limited

We have audited the accompanying financial statements of National Bank of Vanuatu Limited which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages

Directors’ responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements have been properly prepared in accordance with the provisions of the Vanuatu Companies Act [CAP 191] of the Republic of Vanuatu and give a true and fair view of the financial position of the Bank as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LAW PARTNERS
Chartered Accountants

(Qualified auditors under Section 166 of the Companies Act [CAP 191] of the Republic of Vanuatu)
**Statement of Comprehensive Income**

*For the Year Ended 31 December 2013*

*(Expressed in '000 Vatu)*

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>4</td>
<td>994,462</td>
</tr>
<tr>
<td>Interest expense</td>
<td>5</td>
<td>(313,386)</td>
</tr>
<tr>
<td>Net interest income</td>
<td></td>
<td>681,076</td>
</tr>
<tr>
<td>Other operating income</td>
<td>4</td>
<td>355,310</td>
</tr>
<tr>
<td>Net banking income</td>
<td></td>
<td>1,036,386</td>
</tr>
<tr>
<td>Severance pay expense</td>
<td></td>
<td>(33,365)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>5</td>
<td>(995,001)</td>
</tr>
<tr>
<td><strong>Operating profit for the year</strong></td>
<td></td>
<td>8,020</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td></td>
<td>8,020</td>
</tr>
</tbody>
</table>

*The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 43.*
### National Bank of Vanuatu Limited

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

*(Expressed in '000 Vatu)*

<table>
<thead>
<tr>
<th>Issued &amp; paid up capital</th>
<th>Share premium</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the beginning of the financial year</td>
<td>857,140</td>
<td>172,361</td>
<td>477,396</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>-</td>
<td>8,020</td>
</tr>
<tr>
<td></td>
<td>857,140</td>
<td>172,361</td>
<td>485,416</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance at the end of the financial year</td>
<td>857,140</td>
<td>172,361</td>
<td>485,416</td>
</tr>
</tbody>
</table>

| 2012                     |               |                   |       |
| Balance at the beginning of the financial year | 600,000 | -       | 376,837 | 976,837 |
| Total comprehensive income for the year          | -           | -            | 100,559 | 100,559  |
|                                                   | 600,000     | -            | 477,396 | 1,077,396 |
| Shares issued                                     | 257,140     | 172,361     | -     | 429,501 |
| Dividends paid                                    | -           | -            | -      | -        |
| Balance at the end of the financial year          | 857,140     | 172,361     | 477,396 | 1,506,897 |

*The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 43.*
### National Bank of Vanuatu Limited

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2013**

(*Expressed in '000 Vatu*)

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquid assets</td>
<td>8</td>
<td>2,140,334</td>
</tr>
<tr>
<td>Net loans and advances to customers</td>
<td>9a</td>
<td>10,030,980</td>
</tr>
<tr>
<td>Investment securities</td>
<td>11</td>
<td>387,500</td>
</tr>
<tr>
<td>Other assets</td>
<td>12</td>
<td>178,607</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>13</td>
<td>529,666</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>13,267,087</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers’ accounts</td>
<td>14</td>
<td>11,204,928</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>15</td>
<td>320,397</td>
</tr>
<tr>
<td>Provisions</td>
<td>16</td>
<td>226,845</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>11,752,170</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>17</td>
<td>857,140</td>
</tr>
<tr>
<td>Share premium</td>
<td></td>
<td>172,361</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>485,416</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>1,514,917</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td></td>
<td>13,267,087</td>
</tr>
</tbody>
</table>

*The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 43.*

Port Vila, 27th March 2014

[Signatures]

**Director**

**Director**
National Bank of Vanuatu Limited

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Expressed in '000 Vatu)

Cash flows from operating activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>1,004,700</td>
<td>1,017,438</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(310,586)</td>
<td>(420,019)</td>
</tr>
<tr>
<td>Other cash receipts in the course of operations</td>
<td>355,310</td>
<td>332,528</td>
</tr>
<tr>
<td>Other cash payments in the course of operations</td>
<td>(1,102,090)</td>
<td>(400,893)</td>
</tr>
<tr>
<td></td>
<td>(52,666)</td>
<td>529,054</td>
</tr>
</tbody>
</table>

Changes in operating assets and liabilities
- Gross loans and advances to customers  
  (596,663)  
- Customers’ accounts  
  608,496  
- Other assets  
  90,252  
- Transit accounts  
  (3,350)

Net cash provided by/used in operating activities 21 46,071 (843,013)

Cash flows from investing activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued shares</td>
<td>-</td>
<td>257,140</td>
</tr>
<tr>
<td>Net increase in share premium reserve</td>
<td>-</td>
<td>172,361</td>
</tr>
<tr>
<td>Net payments for leasehold improvements, plant and equipment</td>
<td>(196,776)</td>
<td>(14,701)</td>
</tr>
<tr>
<td>Net cash (used in) / provided by investing activities</td>
<td>(196,776)</td>
<td>414,800</td>
</tr>
</tbody>
</table>

Cash flows from financing activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net decrease in cash and cash equivalents held</td>
<td>(150,705)</td>
<td>(428,213)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the financial year</td>
<td>2,291,039</td>
<td>2,719,252</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the financial year 8</td>
<td>2,140,334</td>
<td>2,291,039</td>
</tr>
</tbody>
</table>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 43.
National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Expressed in ´000 Vatu)

1. Reporting entity

National Bank of Vanuatu Limited is a Bank domiciled in Vanuatu. The address of the Bank’s registered office is situated at the National Bank of Vanuatu premises, Rue de Paris, Port Vila, Vanuatu.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank are drawn up in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Companies Act [CAP 191].

The financial statements were authorised for issue by the directors on 27th March 2014.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

(c) Functional and presentation currency

The financial statements are presented in Vanuatu currency (Vatu) rounded to the nearest thousand.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as explained in note 3 (a).

(a) Revenue recognition

Revenue includes interest income, fees, commissions, foreign exchange earnings and other sundry income.

Revenue is recognised to the extent that it is probable that the economic benefit flow to the Bank can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income as they accrue, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.
3. Significant accounting policies (continued)

Fee and commission income

Fee and commission income is generally recognised on an accruals basis when the corresponding service is provided.

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and recognised as an adjustment to the effective interest rate on the relevant loan.

(b) Foreign currency

Foreign currency transactions are translated to Vatu at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to monetary assets and liabilities denominated in foreign currencies are brought to account in the statement of comprehensive income in the financial year in which the exchange rates change.

(c) Non current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows are not discounted to their present value.

(d) Property, plant and equipment - Note 13

Acquisitions

All property plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount, except for assets under construction, which are carried at cost.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the result in the year of disposal.

Depreciation

Items of property, plant and equipment, including leasehold improvements are depreciated using the straight line method over their estimated useful lives. The rates of depreciation used are based on the following estimated useful lives:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements</td>
<td>6 - 20%</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>20%</td>
</tr>
<tr>
<td>Computer system</td>
<td>20%</td>
</tr>
</tbody>
</table>

Assets are depreciated from the date of acquisition or from the date on which significant use commenced. Expenditure on repairs or maintenance of property, plant and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

For operating leases, the lease payments are expensed on a straight line basis over the lease term.
3. Significant accounting policies (continued)

(e) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Employee entitlements - Note 16

Wages, salaries and annual leave

The provision for employees’ entitlements to wages, salaries and annual leave represents the amount that the Bank has a present obligation to pay resulting from employees services provided up to balance date. The provision has been calculated at amounts based on current wage and salary rates and includes related on-costs.

Severance allowance

The provision for employees’ entitlements to severance allowance represents the value of the estimated future cash outflows to be made by the employer resulting from employees services to balance date. In determining the liability for employee entitlements, consideration is given to the Bank’s experience with staff departures.

Vanuatu National Provident Fund (VNPF)

Employers contributions to the above fund are expensed as incurred.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes coins, notes, cash at bank including bank overdrafts, money at call, remittances in transit and amounts due from other banks with original maturity of 90 days or less, and on demand borrowings which are integral to the cash management function.

(g) Financial instruments

The Bank classifies its financial instruments into the following categories: loans and receivables, held to maturity assets and non-trading financial liabilities. The Bank currently has no financial assets at fair value through profit or loss.

Management determines the classification of its financial assets and liabilities at initial recognition.

Loans and receivables comprise loans and advances to customers and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for impairment. The carrying value of loans and receivables is included on the face of the statement of financial position and in note 9 to the financial statements as net loans and advances to customers.

Held to maturity assets comprise investment securities and term deposits placed with other banks (included in liquid assets) and are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank has the intention and ability to hold to maturity. Held to maturity assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for impairment.

Non-trading financial liabilities comprise customer accounts and deposits from credit institutions. Non-trading financial liabilities are measured at amortised cost.
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Expressed in '000 Vatu)

3. Significant accounting policies (continued)

A provision for impairment of financial assets is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms (refer note 3(h)).

Financial assets are derecognised when the rights to receive cash flows from them have expired.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

(h) Impairment of financial assets - Note 10

The Bank assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired and impairment losses incurred. Impairment only occurs if there is objective evidence of impairment. The criteria the Bank uses to determine whether there is an objective evidence of an impairment loss include:

- delinquency on contracted payments of principal or interest;
- cashflow difficulties experienced by the borrower, and
- deterioration in the value of collateral.

Impaired assets typically comprise the following:

- non-accrual assets where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal or interest, and
- restructured assets where the original contract terms have been formally modified to provide concessions of interest or principal for reasons related to the financial difficulties of the customer.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment. Groups of financial assets with similar credit risk characteristics are then collectively assessed for impairment.

If in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

If there is objective evidence that an impairment loss has been incurred on financial assets the carrying amount is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income.

Collective allowances are maintained for losses which, although not specifically identified, are known from experience to be inherent in any asset portfolio. The level of the collective allowance is determined having regard to economic conditions, the level of assets and other general risk factors.

The annual charge to the statement of comprehensive income in respect of credit impairment includes new specific provisions, reversals of specific allowances no longer required and movements in the collective allowance.

Bad debts identified in the year are written off against the allowance for loan losses. The interest income on these loans is also written off against the allowance. Where not previously included in the allowance, bad debts are written off directly against the statement of comprehensive income.

(i) Comparatives

Where necessary, comparative information is reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.
4. Income

**Interest income**
- Loans and advances: $954,885, $958,230
- Interbank foreign currency placing: $12,974, $25,713
- Investment securities: $26,603, $27,693

**Other operating income**
- Fees, charges and commissions (*): $197,578, $183,498
- Net foreign exchange earnings: $111,482, $114,131
- Other income: $8,533, $8,899

**Total income:**
- 2013: $994,462
- 2012: $1,011,636

**Grant receipts**
- NZAid grant: $37,717, $26,000

**Total income:**
- 2013: $355,310
- 2012: $332,528

* Fees and charges relating to loan origination, financing or restructuring and to loan commitments are deferred and recognised as an adjustment to the effective interest rate on the relevant loan.

5. Expenses

**Interest expense**
- On deposits: $310,086, $363,927
- Other accounts: $3,300, $452

**Other operating expenses**

**Personnel expenses**
- Salaries and wages: $305,667, $336,706
- VNPF contributions: $11,209, $11,895
- Other: $101,599, $41,685

**Other operating expenses**
- Auditor’s remuneration: $2,440, $2,369
- Business license fees: $65,441, $61,347
- Depreciation: $76,514, $74,972
- Allowance for loan losses: $159,077, $69,060
- Allowance for impairment of other assets and assets written off: $-3,690

**Other expenses**
- 2013: $235,337
- 2012: $227,253

**Total expenses:**
- 2013: $538,809
- 2012: $438,691

6. Auditor’s remuneration

Amounts received or due and receivable by the Auditors of the Bank for:
- Auditing the financial statements: $2,440, $2,369
- Other services:

**Total:**
- 2013: $2,440
- 2012: $2,369
7. Segment analysis

The major products/services from which the Bank derives revenue are:

Industry segments
General banking services

Products/service
Loans, overdrafts, current, savings and term deposits and foreign currency transactions

Geographical segments
The Bank operates predominantly in Vanuatu

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency notes and coins</td>
<td>387,381</td>
<td>382,931</td>
</tr>
<tr>
<td>Balance with Reserve Bank (including regulatory deposits)</td>
<td>981,629</td>
<td>815,921</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>771,324</td>
<td>1,092,187</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,140,334</strong></td>
<td><strong>2,291,039</strong></td>
</tr>
</tbody>
</table>

The Bank is required to hold specific liquid assets to cover the Liquid Assets Requirement (LAR) set by the Reserve Bank of Vanuatu. Pursuant to an agreement with the Reserve Bank of Vanuatu, coins and notes and amounts due from the Reserve Bank of Vanuatu are included in the calculation of the liquid assets requirement.

8. Liquid assets

9. Loans and advances

9a. Net loans and advances to customers

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdrafts</td>
<td>790,090</td>
<td>922,175</td>
</tr>
<tr>
<td>Loans</td>
<td>9,661,695</td>
<td>8,932,947</td>
</tr>
<tr>
<td>Total gross loans and advances</td>
<td>10,451,785</td>
<td>9,855,122</td>
</tr>
<tr>
<td>Allowance for impairment</td>
<td>10 (420,805)</td>
<td>(273,332)</td>
</tr>
<tr>
<td>Net loans and advances</td>
<td>10,030,980</td>
<td>9,581,790</td>
</tr>
</tbody>
</table>

Maturities of gross loans and advances are summarised as follows:

- Not later than 1 year: 541,804, 1,265,708
- Between 1 and 2 years: 946,362, 598,098
- Between 2 and 5 years: 1,104,825, 661,973
- Later than 5 years: 7,858,794, 7,329,343

Collateral held in respect of loans and advances that are impaired amounts is Vt2,390,162 (2012: Vt1,842,987)
9. Loans and advances (continued)

9b. Gross loans and advances to customers past due but not impaired

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,557,206</td>
<td>2,736,568</td>
</tr>
</tbody>
</table>

Maturities of gross loans and advances to customers are summarised as follows:

- Not later than 1 year  
  | 83,989 | 542,969 |
- Between 1 and 2 years  
  | 424,059 | 86,604 |
- Between 2 and 5 years  
  | 195,055 | 226,164 |
- Later than 5 years  
  | 1,854,103 | 1,880,831 |

<table>
<thead>
<tr>
<th></th>
<th>2,557,206</th>
<th>2,736,568</th>
</tr>
</thead>
</table>

9c. Restructured gross loans and advances to customers

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>194,162</td>
<td>536,763</td>
</tr>
</tbody>
</table>

10. Allowances for impairment of loans and advances to customers

Collective allowances

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>67,500</td>
<td>59,259</td>
</tr>
<tr>
<td>Charge to statement of comprehensive income 5</td>
<td>17,211</td>
<td>8,241</td>
</tr>
<tr>
<td>Total collective allowance</td>
<td>84,711</td>
<td>67,500</td>
</tr>
</tbody>
</table>

Individual allowances

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>205,832</td>
<td>149,468</td>
</tr>
<tr>
<td>Charge to statement of comprehensive income 5</td>
<td>141,866</td>
<td>60,819</td>
</tr>
<tr>
<td>Loans written off / back (11,604)</td>
<td>(11,604)</td>
<td>(11,604)</td>
</tr>
<tr>
<td>Total individual allowance</td>
<td>336,094</td>
<td>205,832</td>
</tr>
<tr>
<td>Total allowances for impairment of loans and advances to customers</td>
<td>420,805</td>
<td>273,332</td>
</tr>
</tbody>
</table>

11. Investment securities

Maturities of investment securities are summarised as follows:

- Not later than 1 year - 
- Between 1 and 2 years 287,500 - 
- Between 2 and 5 years 100,000 - 
- Later than 5 years - 387,500

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>387,500</td>
<td>387,500</td>
</tr>
</tbody>
</table>

Pursuant to an agreement with the Reserve Bank of Vanuatu, holdings of Government bonds are included in the calculation of the Liquid Assets Requirement (LAR).

12. Other assets

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued interest receivable</td>
<td>90,037</td>
<td>100,275</td>
</tr>
<tr>
<td>Other assets</td>
<td>88,570</td>
<td>176,755</td>
</tr>
<tr>
<td></td>
<td>178,607</td>
<td>277,030</td>
</tr>
</tbody>
</table>

All other assets are due within one year.
13. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold premises and improvements</td>
<td>120,193</td>
<td>(43,088)</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>603,512</td>
<td>(254,016)</td>
</tr>
<tr>
<td>Computer system</td>
<td>123,793</td>
<td>(71,849)</td>
</tr>
<tr>
<td>Leasehold land, building and improvements</td>
<td>76,867</td>
<td>(25,746)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>924,365</strong></td>
<td><strong>(394,699)</strong></td>
</tr>
</tbody>
</table>

Movement in total property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Opening carrying amount</td>
<td>Additions</td>
</tr>
<tr>
<td>Leasehold premises and improvements</td>
<td>78,330</td>
<td>8,168</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>198,086</td>
<td>193,398</td>
</tr>
<tr>
<td>Computer system</td>
<td>80,239</td>
<td>79</td>
</tr>
<tr>
<td>Leasehold land, building and improvements</td>
<td>52,751</td>
<td>796</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>409,406</strong></td>
<td><strong>202,441</strong></td>
</tr>
</tbody>
</table>
14. Customers’ accounts

<table>
<thead>
<tr>
<th>Accounts</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts</td>
<td>2,494,963</td>
<td>1,442,818</td>
</tr>
<tr>
<td>Savings accounts</td>
<td>1,652,215</td>
<td>2,293,707</td>
</tr>
<tr>
<td>Fixed term deposits</td>
<td>7,057,750</td>
<td>6,859,907</td>
</tr>
<tr>
<td></td>
<td><strong>11,204,928</strong></td>
<td><strong>10,596,432</strong></td>
</tr>
</tbody>
</table>

Current and savings accounts are generally considered to be liabilities repayable at call and maturity is therefore considered to be less than one month. Maturities of fixed deposits are summarised as follows:

**Fixed term deposits**

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than 1 month</td>
<td>2,558,786</td>
<td>2,637,670</td>
</tr>
<tr>
<td>Between 1 and 3 months</td>
<td>2,104,975</td>
<td>1,635,463</td>
</tr>
<tr>
<td>Between 3 and 12 months</td>
<td>2,390,522</td>
<td>2,583,804</td>
</tr>
<tr>
<td>Later than 1 year</td>
<td>3,467</td>
<td>2,970</td>
</tr>
<tr>
<td></td>
<td><strong>7,057,748</strong></td>
<td><strong>6,859,907</strong></td>
</tr>
</tbody>
</table>

15. Other liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors</td>
<td>-</td>
<td>1,791</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>77,184</td>
<td>74,384</td>
</tr>
<tr>
<td>Transit accounts</td>
<td>63,920</td>
<td>67,270</td>
</tr>
<tr>
<td>Unearned income – lending fees</td>
<td>62,576</td>
<td>61,279</td>
</tr>
<tr>
<td>Unearned income – rural services grant</td>
<td>93,105</td>
<td>58,319</td>
</tr>
<tr>
<td>Due to other banks</td>
<td>-</td>
<td>350,000</td>
</tr>
<tr>
<td>Other</td>
<td>23,612</td>
<td>23,419</td>
</tr>
<tr>
<td></td>
<td><strong>320,397</strong></td>
<td><strong>636,462</strong></td>
</tr>
</tbody>
</table>


**Current**

<table>
<thead>
<tr>
<th>Provision</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual leave provision</td>
<td>20,841</td>
<td>21,115</td>
</tr>
<tr>
<td>Other</td>
<td>32,414</td>
<td>42,042</td>
</tr>
<tr>
<td>Severance allowance</td>
<td>149,186</td>
<td>121,227</td>
</tr>
<tr>
<td></td>
<td><strong>202,441</strong></td>
<td><strong>184,384</strong></td>
</tr>
</tbody>
</table>

**Non-current**

| Severance allowance           | 24,404     | 22,590     |
|                               | **226,845** | **206,974** |

**Movement in severance allowance**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>143,817</td>
<td>126,877</td>
</tr>
<tr>
<td>Net charge to the income statement</td>
<td>33,365</td>
<td>24,249</td>
</tr>
<tr>
<td>Provision utilised</td>
<td>(3,592)</td>
<td>(7,309)</td>
</tr>
<tr>
<td>Balance at end of the year</td>
<td>173,590</td>
<td>143,817</td>
</tr>
</tbody>
</table>
17. Share capital

Authorised capital

85,714 (2012: 85,714) ordinary shares of Vt10,000 each
857,140 857,140

Issued and paid-up capital

85,714 (2012: 85,714) ordinary shares of Vt10,000 each, fully paid
857,140 857,140


The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividend
The directors have not yet proposed a dividend for the 2013 year and accordingly no provision has been booked in the financial statements (2012: Nil).

18. Commitments

Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

<table>
<thead>
<tr>
<th>Period</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than 1 year</td>
<td>53,782</td>
<td>53,901</td>
</tr>
<tr>
<td>Between 1 and 2 years</td>
<td>105,542</td>
<td>53,853</td>
</tr>
<tr>
<td>Between 2 and 5 years</td>
<td>164,925</td>
<td>142,967</td>
</tr>
<tr>
<td>Later than 5 years</td>
<td>359,860</td>
<td>369,294</td>
</tr>
<tr>
<td>Total</td>
<td>684,109</td>
<td>620,015</td>
</tr>
</tbody>
</table>

19. Financial instruments

The bank enters into contracts involving financial instruments during the normal course of its business. Exposure to foreign exchange, credit and interest rate risk arises in the normal course of the Bank’s operations.

The material financial instruments to which the Bank has exposure includes:

i) Gross loans and advances to customers; and

ii) Customers’ accounts and deposits from credit institutions.

Risk exposure arising from financial instruments is monitored regularly by the Bank’s Asset and Liability Committee (“ALCO”), which comprises the senior management of the Bank.
19. Financial instruments (continued)

The Bank deals in mainly spot exchange contracts relating to customers’ business products. These products are entered into both on behalf of customers and where necessary for the Bank’s own account to ensure management of (non-trading) interest rate and foreign exchange risks, that is, balance sheet risk management.

The Bank incurs foreign currency risk on holdings of financial assets and liabilities (principally liquid assets and customers’ accounts) that are denominated in a currency other than Vatu. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars and United States dollars.

Credit risk

Credit risk represents the accounting loss that would be recognised if counterparties failed to perform as contracted. Where applicable approval for any large individual exposures has been formally sought from the Reserve Bank of Vanuatu in accordance with the requirements of the Financial Institutions Act No. 2 of 1999. To reduce exposure to credit risk, the Bank performs ongoing credit evaluations of the financial condition of its counterparties.

Credit risk on financial assets is minimised by dealing with recognised monetary institutions with accepted credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position.

Interest rate risk

The Bank’s exposure to interest rate fluctuations on its borrowings and deposits is managed with reference to limits for exposure to interest rate set by ALCO.

The Bank’s exposure to interest rates and the effective interest rates of financial assets and liabilities at balance date are as follows:

Financial assets:
- Liquid assets: floating interest rates.
- Gross loans and advances to customers: variable maturing as detailed in note 9 (with fixed interest rates of up to 18 months on housing loan products only).
- Investment securities: fixed interest rates maturing as detailed in note 11.

Financial liabilities:
- Customers’ accounts: variable/fixed interest rates maturing as detailed in note 14.
- Deposits from credit institutions: floating interest rates at call.

All other financial assets or financial liabilities are non-interest bearing.

Liquidity risk

Liquidity risk is primarily managed with reference to limits set by ALCO and by external regulators.
19. Financial instruments (continued)

Details of income and expenses for financial instruments follows:

<table>
<thead>
<tr>
<th></th>
<th>Carrying value</th>
<th>Interest income and expenses</th>
<th>Fees, charges and commissions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loans and receivables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loans and advances to customers</td>
<td>10,030,980</td>
<td>681,076</td>
<td>235,301</td>
</tr>
<tr>
<td><strong>Held to maturity assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>387,500</td>
<td>26,603</td>
<td>-</td>
</tr>
</tbody>
</table>

The aggregate net fair values of financial assets and financial liabilities at the balance date approximate the carrying values shown in the statement of financial position.

**Capital risk management**

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of net debt and equity balances.

The capital structure of the Bank is monitored using the gearing ratio. The ratio is calculated as net debt divided by equity. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents. Total capital employed is calculated as net debt plus total equity.

In order to maintain or adjust capital structure, the Bank may adjust the amount of dividends paid to shareholders, return equity to shareholders, issue new shares or sell assets to reduce debt. The Bank continuously reviews the capital structure to ensure:

- sufficient finance for the business is maintained at a reasonable cost;
- sufficient funds are available for the business to implement its capital expenditure and business acquisition strategies;
- distributions to shareholders are maintained within stated dividend policy requirements; and
- where excess funds arise with respect to the funds required to enact the Bank’s business strategies, consideration is given to possible returns of equity to shareholders.
20. Contingent liabilities and commitments

Contingent liabilities

Traditional off balance sheet risk instruments

The Bank guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio maintenance and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

The credit risk of these facilities may be less than the notional amount, but as it cannot be accurately determined, the credit risk has been taken to be the contract or notional amount.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>11,267</td>
<td>21,427</td>
</tr>
<tr>
<td>Financial guarantees</td>
<td>36,628</td>
<td>52,821</td>
</tr>
</tbody>
</table>

Commitments

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure</td>
<td>36,500</td>
<td>42,000</td>
</tr>
<tr>
<td>Undrawn facilities</td>
<td>62,348</td>
<td>50,419</td>
</tr>
<tr>
<td></td>
<td>98,848</td>
<td>92,419</td>
</tr>
</tbody>
</table>

The amounts reflected above for commitments assume that amounts are fully advanced.

21. Notes to the statement of cash flows

Reconciliation of operating profit to net cash flows from operating activities

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>8,020</td>
<td>100,559</td>
</tr>
</tbody>
</table>

Non-cash items

<table>
<thead>
<tr>
<th>Non-cash items</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Allowance for impairment and loans written off</td>
<td>147,473</td>
<td>64,605</td>
</tr>
<tr>
<td>- Depreciation</td>
<td>76,514</td>
<td>74,972</td>
</tr>
<tr>
<td>Net cash provided by operating activities before change in assets and liabilities</td>
<td>232,007</td>
<td>240,136</td>
</tr>
</tbody>
</table>
21. Notes to the statement of cash flows (continued)  

Change in assets and liabilities during the financial year

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>decrease in accrued interest receivable</td>
<td>10,238</td>
<td>5,802</td>
</tr>
<tr>
<td>Increase in loans and advances</td>
<td>(596,663)</td>
<td>(1,156,011)</td>
</tr>
<tr>
<td>Decrease / (increase) in other assets</td>
<td>88,186</td>
<td>(122,959)</td>
</tr>
<tr>
<td>Increase / (decrease) in accrued interest payable</td>
<td>2,800</td>
<td>(55,640)</td>
</tr>
<tr>
<td>(Decrease) / increase in deposits from customers and credit institutions</td>
<td>608,496</td>
<td>(52,402)</td>
</tr>
<tr>
<td>(Decrease) / increase in other liabilities &amp; provisions</td>
<td>298,993</td>
<td>242,421</td>
</tr>
<tr>
<td>Net cash provided by / used in operating activities</td>
<td>46,071</td>
<td>(843,013)</td>
</tr>
</tbody>
</table>

22. Employees

The number of employees as at 31 December 2013 was 203 (2012: 190).

23. Related parties

Transactions with directors and executive officers

In addition to their salaries, the Bank also provides non-cash benefits to a director and executive officers.

Total salary remuneration is included in ‘personnel expenses’ (refer note 5) as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director fees</td>
<td>1,139</td>
<td>94</td>
</tr>
<tr>
<td>Executive officers</td>
<td>112,808</td>
<td>92,867</td>
</tr>
<tr>
<td></td>
<td>113,947</td>
<td>92,961</td>
</tr>
</tbody>
</table>

Loans to directors

Loans to directors and a director related entity outstanding as at 31 December 2013 was nil (2012: Nil)

Loans to other officers and employees

Loans to other officers and employees outstanding as at 31 December 2013 totalled Vt448,691 million (2012: Vt332,092 million).

Shareholders

The Bank’s shareholders are:

1. The Government of the Republic of Vanuatu;
2. Vanuatu National Provident Fund; and

24. Post balance sheet events

No material events have occurred since the balance date which would require any adjustments to or disclosure in the financial statements (2012: Nil).
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- Convenience: send money or top up credit any time of day or night
- Security: IsiMani is as secured as your Isikad

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CORPORATE GOVERNANCE

The National Bank of Vanuatu Limited (NBV Ltd) was registered by the Vanuatu Financial Services Commission under The Companies Act (Cap 191) on 19th July 2012. The new company was created to accommodate the transfer of business operations and undertakings from the National Bank of Vanuatu, a State Owned Enterprise established under the National Bank of Vanuatu Act No.46 of 1989. The aforementioned Act was repealed and gazetted on 19th October 2012 by the National Bank of Vanuatu (Restructuring) Act No. 3 of 2012.

On the 16th November the company commenced operations under its new corporate structure with the subscription for new share capital from International Finance Corporation (a member of the World Bank Group) and the Vanuatu National Provident Fund. Upon completion of the restructure the Government of Vanuatu held 70% of the issued shares, International Finance Corporation 15% and the Vanuatu National Provident Fund 15% equity.

Upon commencement of operations of the NBV Ltd, the Board resolved to adopt a comprehensive set of Corporate Governance principles and policies to best reflect its Core Values of Honesty, Integrity, Responsiveness, Productivity and Economic Development.

The bank has the largest branch network in Vanuatu servicing the financial needs of the wider communities through 30 branches from Sola in the north to Aneityum in the south. The Bank’s Corporate Governance framework is designed to ensure all stakeholders are dealt with fairly and in the best interests of development of the bank, its customers, staff and the general economy of Vanuatu.

THE BOARD OF DIRECTORS

The Board’s primary role is to protect and enhance long-term Shareholder value whilst maintaining a strong focus on the economic development of Vanuatu. To fulfil this role, the Board is responsible for providing strategic guidance to NBV Ltd; monitoring and providing effective oversight of NBV Ltd management; overseeing NBV Ltd’s risk management systems; and acting as an interface between NBV Ltd and its shareholders.

The roles and responsibilities of the NBV Ltd Board as set out in detail in NBV Ltd’s Corporate Governance Principles include:

- overall strategy of the company, including operating, financing, dividend, and risk management,
- appointing the Managing Director and setting an appropriate remuneration package,
- appointing the Company Secretary and setting an appropriate remuneration package,
- endorsing appropriate policy settings for management,
- reviewing Board composition and performance,
- reviewing the performance of management,
- approving a strategic plan, and an annual budget for the bank and monitoring results on a regular basis,
- ensuring that appropriate risk management systems are in place, and are operating to protect the company’s financial position and assets,
- ensuring that the bank complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour,
- establishing authority levels,
- Directors’ remuneration via the Remuneration & Nomination Committee,
- selecting, with the assistance of the Audit, Risk and Compliance Committee, the appointment of external auditors,
- approving financial statements
- self-assessing its performance
The Board has delegated responsibility for the operation and administration of NBV Ltd to the Managing Director and executive management team, who will provide comprehensive regular reports to the full Board and Board Committees as required.

**Membership and composition of the Board**

The Shareholders Agreement established between the three key shareholders determined the composition of the Board, which has been adopted in the NBV Ltd Constitution. For the term of the agreement the number of directors as prescribed by the Constitution shall be no less than four and no more than seven.

Six of the board members shall comprise:

(i) two to be nominated by the Government of Vanuatu (GoV):
   a. the first shall be nominated on the recommendation of the Prime Ministerial Office and shall be a person having extensive financial or banking knowledge at a managerial level,
   b. the second shall be nominated on the recommendation of the Ministry of Finance and Economic Management of GoV,
   c. both shall be senior public servants of at least director status;
(ii) one may be nominated by Vanuatu National Provident Fund (VNPF);
(iii) one may be nominated by International Finance Corporation (IFC);
(iv) one shall be the Company’s Managing Director; and
(v) one shall be nominated by the Finance Centre Association (FCA)

The board may also nominate at least one Independent Director.

Each of the GoV, IFC and VNPF may require the removal of the director/s it has nominated at any time and shall be entitled to nominate another person as its nominated director in place of any prior nominated director who will be removed as a director in conjunction with the nomination of a replacement. In the event of the resignation, retirement or vacation of office of a nominated director, the relevant member who nominated the director shall be entitled to nominate another person to serve as its nominated director and the board shall promptly appoint such nominee as a director. Independent Board members are required to review their independence annually; materiality will be assessed on a case-by-case basis.

The Board accepts that it has a responsibility to shareholders to ensure that it maintains an appropriate mix of skills and experience within its membership and consequently gives careful consideration to setting criteria for new appointments in accordance with the Company's Constitution. It has delegated the initial screening process to its Remuneration and Nominations Committee, which in accordance with its Charter may seek independent advice on possible new candidates for Directorships. A majority of Directors must be satisfied that the best candidate has been selected.

**The Chairman of the Board**

The Chairman is elected by the Directors and his / her role includes:

- ensuring all new Board members participate in an appropriate induction program and are fully aware of their duties and responsibilities,
- providing effective leadership on the Company’s strategy,
- presenting the views of the Board to the public as required,
- ensuring the Board meets regularly throughout the year, and that minutes are taken and recorded accurately,
• setting the Agenda of meetings and maintaining proper conduct during meetings,
• reviewing the performance of non-executive directors.

The Chairman is not permitted to occupy the role of Managing Director.

Directors’ Fees

The maximum aggregate amount of fees that can be paid to non-executive Directors is determined by shareholders at annual general meetings of the Company in accordance with the Constitution. Fees are intended to remunerate non-executive Directors for time spent on Board and Board Committee matters, including review and preparation time, meeting attendance and travel. The Chairman and Deputy Chairman spend additional time attending to their special responsibilities.

Annual fees are paid to the following:

• Chairman
• Deputy Chairman
• Non-Executive Directors

Board Performance Review

The Remuneration and Nomination Committee reviews the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director.

The Board is cognisant of the need to continually identify areas for improvement to ensure that it meets the highest standards of corporate governance and for the Board and each Director to make an appropriate contribution to the Company’s objective of providing value to its stakeholders. The performance review is conducted annually and may involve external assistance.

Board and Board Committee Meetings

Scheduled meetings of the Board are held at least every three months and the Board meets on other occasions to deal with matters requiring attention. Meetings of Board Committees are scheduled regularly during the year.

The Chairman, in consultation with the Managing Director, determines meeting agendas. Meetings provide regular opportunities for the Board to assess NBV Ltd’s management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board Members in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Relationship with Management

The management of the business of the bank is conducted by and under the supervision of the Managing Director, and by those other officers and employees to whom the management function is properly delegated by the Managing Director.

The Board is responsible for defining the limits to management’s responsibilities, and approving the corporate objectives for which the Managing Director is responsible.

All Directors may access bank records and information and are entitled to receive regular detailed financial and operational reports to enable them to carry out their duties. The Executive Department Heads make regular presentations to the Board on their areas of responsibility. The Chairman and the other Non-Executive Directors have the opportunity to meet with the Managing Director and the
Business Unit Heads for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

**BOARD COMMITTEES**

To assist in the execution of its responsibilities, the Board has established two Board Committees, comprised of non-executive Directors only. Each committee has a formal Charter approved by the Board. Committee members are chosen for the skills, experience and other qualities they bring to the Committee. At the subsequent Board meeting following each Committee meeting, the Board is given a report by the Chairman of the respective Committee and Minutes of the meeting are tabled.

**Audit Risk and Compliance Committee**

The Audit Risk and Compliance Committee (ARCC) is comprised of three Non-Executive Directors who are duly appointed by the Board. The Chairman of the ARCC must be one of the Directors, other than the Chairman of the Board. The Chairman of the Board cannot sit on the ARCC. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Bank's Board.

The key responsibilities of this Committee include:

- integrity of the Financial Statements and the financial reporting and audit process
- external auditor’s qualifications, performance and independence
- the system of internal control and management of all risks
- the systems for ensuring operational efficiency and cost control
- the systems for approval and monitoring expenditure including capital expenditure
- the processes for monitoring compliance with relevant laws and regulations
- implementation of Board decisions by management and making recommendations to the Board for the appointment of the external auditor
- annual internal audit plan and its ongoing review

To fulfill its mandate, the Committee meets with both the internal and external auditors without management present.

**External Auditor**

The ARCC is responsible for making recommendations to the Board on appointment and terms of engagement of NBV Ltd’s external auditor. The selection is made from appropriately qualified companies in accordance with Board policy.

The Committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Reserve Bank of Vanuatu Prudential Guideline No 5 – Audit Arrangements, while ensuring their independence is in line with Board policy.

There is a review of the external auditor’s proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the Committee or the external auditor believe, should be discussed privately. The external auditor attends meetings of the ARCC at which the external audit is an agenda item.

The Committee ensures that significant findings and recommendations made by the external auditor are received and discussed promptly, and that management responds to recommendations by the external auditor in a timely manner.
The duly appointed external audit firm may not be engaged by the company to provide specialist consultancy services relating to financial or strategic matters.

Internal Audit

The ARCC approve, on the recommendation of management, the appointment of the Manager Audit. The Committee meets regularly with the Manager Audit. Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon Audit Business Unit. The ARCC also reviews the qualifications of internal audit personnel and endorse the appointment, replacement, reassignment or dismissal of the internal auditors.

The Committee meets separately with the internal auditor to discuss any matters that they or the internal auditor believe should be discussed privately. The Internal Auditor has direct access to the ARCC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Internal Audit meets with the external auditor half yearly, to review the scope and findings of internal audit’s annual audit plan, and the extent of the external audit plan, having regard to internal audit’s findings.

Compliance

The ARCC review the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations, and the Constitution of the Bank. It also reviews the results of management’s investigation and follow-up (including disciplinary action) of any fraudulent acts, or non-compliance.

The Committee obtains regular updates from management, and the Bank’s legal officers, regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the Board Audit Risk and Compliance Committee has the right to approach a Regulator directly in the event of a prudential issue arising.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (RNC) comprises three Non-Executive Directors duly appointed by the Board. The Chairman of the RNC must be one of the Directors, other than the Chairman of the Board. The Chairman of the Board cannot sit on the RNC. Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the NBV Ltd Board.

The RNC has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and Senior Executive Management selection, appointment, review and remuneration. The key responsibilities of this Committee include:

• to oversee the selection and appointment of a Managing Director and recommend an appropriate remuneration and benefits package to the full Board,
• identify and maintain a clear succession plan for the Executive Management Team, ensuring
an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly,

• determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders,
• ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to shareholders,
• receive and endorse positions/titles recommended by the Managing Director from time to time as applying to designated Senior Executive Management positions,
• review the procedures in place to ensure that all new Senior Executive appointees are adequately qualified and experienced, and that proper recruitment procedures are followed,
• review and make recommendations to the Board on the appointment to and terms and conditions of employment, for all Senior Executive Management positions,
• review and approve all termination arrangements for such Senior Executives,
• review transactions between the Company and any of the Directors or relevant Senior Executives,
• review and make recommendations to the Board on employee remuneration and benefits policies and practices generally,
• engage external consultants as and when deemed appropriate to benchmark remuneration packages for Executives and Senior Management,
• review Board performance, tenure, and succession planning.

RISK MANAGEMENT

The Bank’s Risk Management activities are aligned to the achievement of the Bank’s Strategic Plans. The Board in consultation with the Executive Committee, determines the Bank’s appetite and tolerance of risk. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

NBV Ltd identifies the following major risk areas:

• Governance Risk – The risk of failure of overall management through Board oversight and senior executives in directing and controlling the organization, using a combination of management information and hierarchical management control structures.
• Credit Risk - The potential for financial loss where a customer or counterparty fails to meet their financial obligation to the Bank.
• Market Risk - The potential financial loss arising from the Bank's activities in financial, including foreign exchange, markets. More detailed commentary on financial risk management is provided in the Notes to the published financial accounts.
• Liquidity Risk – The risk of failure to adequately meet cash demand in the short term without incurring financial losses.
• Interest Rate Risk - Risk to earnings from movement in interest rates.
• Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal and compliance risk, and reputation risk.

The Bank’s Asset & Liability Committee monitors market risk, interest rate risk, and liquidity risk, and the Credit Committee monitors credit risk. Operational risk is managed at Business Unit level and a risk register system is in place across the bank. The Executive Committee and the Board will overview the highest tier of risks within these risk registers.

The Bank’s risk management policy ensures that the bank has in place acceptable limits for the risks identified by the bank’s employees. The risk management approach encompasses the following:

• defining the types of risks that are to be addressed by each functional or policy area (i.e., credit risk, interest rate risk, liquidity risk, operational risk, etc.),
• ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organisation wide risk management,
• developing information systems to provide early warning or immediate alert of events or situations that may occur or already exist, that could create one or more types of risk for Bank
• creating and maintaining risk management tools including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, personnel management and training and planning,
• instituting and reviewing risk measurement techniques that Directors and management may use to establish the bank’s risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes,
• developing processes for those areas that present potential risks,
• establishing appropriate management reporting systems regarding these risks so individual managers are provided with a sufficient level of detail to adequately manage and control the Bank’s risk exposures.

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the bank’s activities. Therefore, responsibility for overall risk management in NBV Ltd is vested with the Board. However, every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.

There is a formal system of financial and operational delegations from the Board to the Managing Director, and from the Managing Director to the Executive Business Unit Heads. These delegations reflect the Bank’s risk appetite, and are cascaded down to managers who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval, control and authorities limits) and reporting and monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the Business Unit Risk Registers, is used to determine the approval, control and authority limits. The Board reviews these risk limits annually along with an annual review of the bank’s significant risks.

The Board has also delegated to the ARCC responsibility for overview of loss control and for overseeing the risk management function.

The Board ARCC is responsible for providing regular reports and recommendations to the Board on the risk management activities of the Bank, especially relating to risk issues that are outside of the authority of the Bank’s Executive Management to approve.

ETHICAL BEHAVIOUR

The Bank acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking company business. To this end, the Board has adopted a Corporate Mission, Objectives and Core Values Statement, which establish principles to guide all employees in the day-to-day performance of their individual functions within the Company.

NBV Ltd is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct.

The Bank has adopted a whistle blowing policy that is designed to support and encourage staff to report in good faith matters such as:

• unacceptable practices,
irregularities or conduct which is an offence or a breach of laws of Vanuatu,
corruption and fraud,
misrepresentation of facts,
decisions made & actions taken outside established NBV Ltd policies & procedures,
sexual harassment,
abuse of Delegated Authorities,
misuse of company assets,
disclosures related to miscarriages of justice,
health and safety risks, including risks to the public as well as other employees,
damage to the environment,
other unethical conduct,
failure to comply with appropriate professional standards,
abuse of power, or use of the Bank’s powers and authority for any unauthorised purpose or personal gain,
breach of statutory codes of practice.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board further stipulates that senior management periodically undertake an appropriate communication program to reinforce both the Code and Core Value Statements.

SOCIAL & ENVIRONMENT MANAGEMENT SYSTEM POLICY

The Bank maintains a Social & Environment Management System (SEMS) that meets the requirements stipulated in the International Finance Exclusion List and Environmental & Social Sustainability Performance Standards, and relevant legislation relating to social and environmental matters in Vanuatu:

- Employment Act (Cap 160)
- Environmental Protection & Conservation Act (Cap 283)
- Land Leases Act (Cap 163)
- Foreshore Development Act (Cap 90)
- Forestry Act (Cap 276)
- Framework Convention on Climate Change (Ratification) Act (Cap 218)
- Health and Safety at Work Act (Cap 195)
- Land Acquisition (Cap 215)
- Pesticides (Control) Act (Cap 226)
- Preservation of Sites and Artefacts Act (Cap 39)
- Water Resources Management Act (Cap 281)

The SEMS policy provides the framework within which the Bank works to ensure that deposit accounts are not opened and finance is not approved for entities that are in breach of national laws/legislation and entities whose primary activities are on the IFC Exclusion List. Where applicable, environmental assessments are performed, reports are provided to the Bank, and the necessary authorisations are obtained by clients.
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